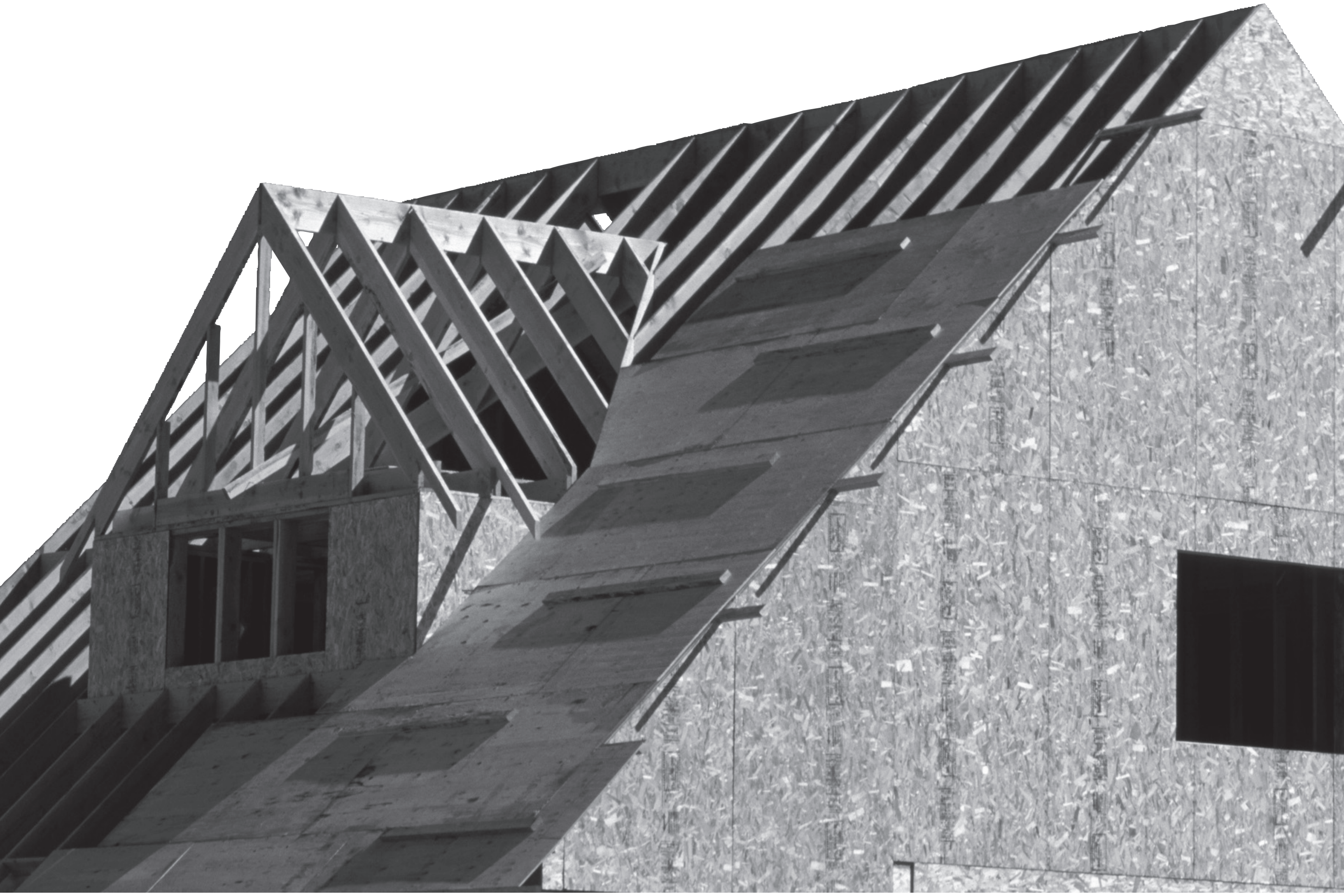
WASHINGTON STATE DEPARTMENT OF FINANCIAL INSTITUTIONS



DFI Guide to Home Loans

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Welcome to the Department of Financial Institutions guide to home loans. Whether you're buying your first home, considering a second mortgage, or refinancing, the loan process can be confusing and complicated – even overwhelming. As you embark on one of the biggest financial decisions you'll make in your lifetime, it's important that you understand what to expect before you sign your name to the dotted line.

In a recent survey commissioned by DFI, fifty-percent of predatory lending victims admitted that they entered into transactions in a moment of desperation or as a response to an emergency. Too often, consumers need money quickly and sign loan agreements without understanding how much they are paying in interest or fees. Educating yourself can help you avoid common pitfalls and reduce the likelihood of falling victim to predatory lending practices.

ABOUT DFI

The Department of Financial Institutions licenses and regulates a variety of Washington State Financial Service providers such as banks, credit unions, mortgage brokers, consumer loan companies, money transmitters, payday lenders and securities broker-dealers and investment advisors. The Department also works to protect consumers from financial fraud.

Building a Strong Foundation:

Imagine building your house on the sand. When the first rainstorm blows through, your new house will most likely be washed out to sea. Without placing your house on a solid foundation you can anticipate a disaster. Building a foundation of knowledge about the loan borrowing process is equally important. Although laws vary from state to state, many steps are standard. Here are five steps to help you begin your journey.

Beginning your Journey:

1. Before you buy a home, attend a free homeownership education course offered by the Washington State Housing Finance Commission.
2. Gather all your financial documents; check your credit history and fix any blemishes on your credit before you apply for a loan.
3. Determine how much you can truly afford to buy your new home.
4. Keep accurate notes; make a file and keep all loan documents and correspondence in that file.
5. Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender. Contact the Washington State Department of Financial Institutions to ensure that you're working with a licensed professional.

Construction Crew:

Whether you're buying a home for the first time or refinancing a loan for the third time, it's important to know who the main players are and what roles in the transaction they play.

Here are some initial introductions:

Borrower: a person who has been approved to receive a loan and is then obligated to repay it, plus any additional fees according to the loan terms.

Selling Agent: the real estate agent obtaining the buyer rather than listing the property. The listing and selling agent may be the same person or company.

Listing Agent: a real estate agent who represents the seller or buyer and works to find a listing.

Mortgage Broker: any person who for compensation or gain, or in the expectation of compensation or gain: (a) makes a residential mortgage loan or assists a person in obtaining or applying to obtain a residential mortgage loan, or (b) holds himself or herself out as being able to make a residential mortgage loan or assist a person in obtaining or applying to obtain a residential mortgage loan.

Lender (a Bank, Credit Union, or Mortgage Bank): any person or entity loaning funds, which are to be repaid.

Title Company/Title Insurance Company: a company, which issues insurance regarding title to real property.

Appraiser: a qualified individual who uses his or her experience and knowledge to determine the value of a home and prepare the appraisal estimate.

Inspector: a designated agent who inspects and documents the physical condition of the property as described and verified in an inspection certificate.

Escrow Agent/Agency: the person or organization having a fiduciary responsibility to both the buyer and seller to see that the terms of the purchase/sale (or loan) are carried out. Often referred to as "closing" the loan, title companies, attorneys and even the lender may serve in this role.

Understanding your Credit:

The concept of credit – the reputation for paying your bills on time – makes it possible for you to acquire merchandise or money with the understanding that you will repay later. Your history for paying your bills on time is collected by a credit bureau or credit-reporting agency. These businesses gather, maintain, and sell information about consumers' credit histories. They collect information about your payment habits from banks, credit unions, finance companies, or retailers.

Why is it important?

Generally lenders look at several things: your income, your down payment or equity, your credit history, how much money you've saved, and the property you plan to purchase or refinance. When studying your credit history, almost all lenders look at your credit score and your debt-to-income ratio. Lenders use credit scores, known as FICO scores, as an important factor in the decision whether or not to offer credit. The scores can range from 375 to 900 points. You're likely considered to be a better credit risk if your FICO score is high.

Credit Problems?

If you have a lower credit score, don't assume that your choices are limited to high-cost lenders. If your credit report contains negative information that is accurate but stemming from unique circumstances such as illness or temporary loss of income, be sure to explain your situation to the lender or broker. Don't assume that the only way to get credit's to pay a high price. Take the time to shop around and negotiate the best deal for you. It may be that your past credit record is not as good as you might wish. If you're currently having credit problems, you may not be in a position to buy a house until they are resolved.

The following conditions will play a factor in your mortgage lender's decision to provide you with a loan:

Bankruptcy: In most cases, lenders prefer that you wait at least two years after a bankruptcy is resolved before taking on another large debt such as a home loan. Bankruptcies can remain on your credit report for up to 10 years. It may be helpful for you to explain the circumstances to the lender under which you declared bankruptcy.

Foreclosure: Having a foreclosure on your records doesn't mean that you can never buy another house. The mortgage lender will, however, want to know the reasons for your foreclosure. Most lenders will expect you to wait three years after a foreclosure before you apply for a new mortgage.

Debts: Having too much debt may lower the chances for you to buy a home or refinance a mortgage. Making late payments or skipping payments will show as derogatory or negative items on your credit report. Taking steps to improve your credit record is one of the most important things you can do.

A consumer credit report is a document that contains a record of an individual's credit payment history. The report contains four types of information: identifying information, credit information, public record information, and inquiries.

Credit Reports:

Identifying information includes:

- Your name
- Your current and previous addresses
- Your Social Security number
- Your year of birth
- Your current and previous employers
- If you're married, your spouse's name
- Credit information includes credit accounts or loans you've with:
  - Banks
  - Retailers
  - Credit card issuers
  - Other lenders

The information contained on your credit report remains for seven years from the date it's first reported, and then cycles off automatically.

Whether you have credit problems or not, it's a good idea to review your credit report for accuracy and completeness before you apply for a loan. If there is inaccurate information in your credit report, you've the right to dispute it and have it removed.

TIP: Beginning December 1, 2004, consumers are allowed to order one free copy of their credit report. To order a copy of your credit report, contact:

- Equifax www.equifax.com OR Call 1.800.685.1111
- Experian www.experian.com OR 1.888 EXPERIAN (1.888.397.3742)
- TransUnion www.tuc.com OR Call 1.800.916.8800

If you've been denied credit because of information on your credit report, the lender is required to provide you with the credit bureau's name, address, and telephone number -- and you're entitled to a free copy of your report from that credit bureau. The credit reporting industry is regulated by the federal Fair Credit Reporting Act, which is administered by the Federal Trade Commission (FTC)

How Much Home Can You Afford?

Determining how much you can afford is an important first step in shopping. How much will your monthly payments be? Take into consideration future changes in your household income. Are you anticipating a promotion at work that would increase your salary? Will you be adjusting from a double income family to a single income in the coming years? If the interest rate is adjustable – can you afford the larger payment if the rates increase?

Your debt-to-income ratio is the amount of debt payments per month divided by the amount of your income per month. This ratio helps lenders decide how large of a mortgage loan you can comfortably handle. Most lenders calculate your debt-to-income ratio to help determine whether you can afford the loan.

Before you start shopping for a loan, you've got to figure out how much you can afford to pay each month. You can do this yourself before meeting with a lender by calculating your costs and determining your financial worth. Mortgage calculators are available online and can be a tool to helping you determine how much you can afford.

Understanding the Types of Mortgages

When searching for a type of mortgage, it's important to choose the best loan program that fits your personal wants and needs. The right type of mortgage for you depends on many different factors, such as:

- Your current financial picture.
- How you expect your finances to change.
- How long you intend to keep your house.
- How comfortable you're with the amount of your mortgage payment changing.

The best way to find the "right" answer is to discuss your finances, your plans and financial prospects, and your preferences with a real estate or mortgage professional.

Here are some common types of mortgages that you should know about:

Adjustable Rate Mortgage (ARM): A mortgage in which the interest rate may vary and is adjusted periodically based on a pre-selected index. Sometimes known as a variable rate mortgage. These type of loans can be cheaper initially, but can be unpredictable.

Balloon (payment) Mortgage: Usually a short-term fixed-rate loan that involves small payments for a certain period of time, and one large payment for the remaining amount of the principal at a time specified in the contract.

Blanket Mortgage: One mortgage securing several pieces of real estate.

Conventional loan: A mortgage not insured by the Federal Housing Administration (FHA) or guaranteed by the Veterans Administration (VA). This mortgage is not a subprime loan.

FHA Loan: a loan insured by the Federal Housing Administration, open to all qualified home purchasers. This program allows buyers who might not otherwise qualify for a home loan to obtain one because the risk is removed from the lender by FHA. While there are limits to the size of FHA loans, they are generous enough to handle moderately priced homes almost anywhere in the country.

Fixed-Rated Mortgage: A mortgage on which the interest rate is set for the term of the loan, regardless of future interest rate fluctuations. This makes payments precisely predictable, but it's not always the cheapest alternative.

Subprime Lender/Loans: A lender that charges a finance rate that is higher than the "prime" or normal rate offered by conventional lenders. Typically, it's a lender that approves loans for individuals who may have poor credit history or no credit history, or who have other characteristics that justify a higher rate. Keep in mind: because you're approved for a subprime loan doesn't mean that you cannot qualify for a conventional loan from another lender. Be sure to explore your options.

Understanding Your Costs

Down payments, rates, points, and fees can make a loan that looks good at first glance into something else once all the facts are known. Knowing the amount of the monthly payment or the interest rate is not enough. Be sure to get information about potential mortgages from several lenders or mortgage brokers and find out all of the costs involved with a loan. When comparing loans, make sure you're reviewing the same information in each loan such as (loan amount*, loan term*, type of loan*, monthly payment, penalties and features and annual percentage rate (APR)*).

TIP: Ask about the loan's annual percentage rate (APR). The APR takes into account not only the interest rate but also points, broker fees, and certain other credit charges that you may be required to pay, expressed as a yearly rate. This will specifically tell you the cost of what you're borrowing and will allow you to compare the costs of one loan to another.

TIP: Note everything in writing. A daily journal of all conversations can be a powerful tool in resolving conflicts later.

TIP: Never take the loan officer's verbal promise on any detail or feature of the loan that matters. You've a right to receive commitments in writing and a professional should never hesitate to provide this. If your loan officer is unwilling to put his promises in writing, you should not rely on those promises.

Be sure to get, gather and compare the following information from each lender and mortgage broker:

Rates

- Ask each lender and broker for a list of its current mortgage interest rates and whether the rates being quoted are the lowest for that day or week.

- Ask whether the rate is fixed or adjustable. Keep in mind that when interest rates for adjustable-rate loans go up, so does the monthly payment.

- If the rate quoted is for an adjustable-rate loan, ask how your rate and loan payment will vary, including whether your loan payment will be reduced when rates go down.

- Ask what Index and Margin will be used.

- Find out how frequently your rate can adjust (monthly, 6 months, or yearly) and how much it can change at each adjustment (yearly caps, lifetime caps).

Points

Points or discount points are fees paid to the lender or broker for the loan and are often linked to the interest rate; usually the more points you pay, the lower the rate. Ask to see exactly how much your rate will be dropped based on the amount of discount points you pay. For example, paying 0.50% of the loan amount in discount points may adjust the loan rate downwards by 0.25%. Each program and lender will use a different formula and the amounts of points will change daily as market rates change.

Note the trade off between points and rates and compare your short-term needs against your long-term needs. Here is an example based on $100,000, 30 year fixed rate mortgage at a 6.5% interest rate:

	With no Discount Points	**With Discount Points**
$ Amount of Points	**$0**	**$250**
Interest Rate	**6.5%**	**6.25%**
Monthly Payment	**$632**	**$616**

In the above example, it would cost you $250 to save $16 a month in your payment. Only you can determine if this is a beneficial trade off for you. Ask yourself whether you can afford the extra cash upfront right now and then note the following:

1. The $250 repays itself in approximately 16 months (dividing $250 by $16 equals 15.63 months). Every month you keep the loan after this point you will be "making" an extra $16 per month. Over the next 344 months this equates to $5,504.

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2. Over the life of the loan, this $250 investment also saves you approximately $5,886 in interest.

- Check your local newspaper business section for information about rates and points currently being offered.

- Ask for points to be quoted to you as a dollar amount—rather than just as the number of points—so that you will actually know how much you will have to pay.

TIP: CAUTION: A mortgage broker should not directly be charging you any discount points, because they don't set the rate.

Fees

A home loan often involves many fees, such as loan origination or underwriting fees, broker fees, and transaction, settlement, and third party costs. Every lender or broker must give you an estimate of its fees, when you apply for a mortgage loan. Many of these fees are negotiable. Some fees are paid when you apply for a loan (such as application and appraisal fees), and others are paid at closing. In some cases, you can borrow the money needed to pay these fees, but doing so will increase your loan amount and total costs. "No cost" loans are frequently available, but they usually involve higher rates.

- Ask what each fee covers. Several items may be lumped into one fee.

- Ask for an explanation of any fee you don't understand. Some common fees associated with a home loan closing are listed on the attached Mortgage Shopping Worksheet.

- Third party costs should be charged to you at the actual cost of service. Ask to see invoices if you feel you're paying too much.

Down Payments and Private Mortgage Insurance

Some lenders require 20% of the home's purchase price or value as a down payment or equity in the loan. This requirement is known as the Loan to Value or LTV. A 20% down payment or equity equates to an 80% LTV. Your lender will tell you their LTV requirements for each type of loan.

Most lenders offer loans that require less than 20% down—sometimes as little as 0% on conventional loans. If a 20% down payment is not made, lenders usually require the borrower to purchase private mortgage insurance (PMI) to protect the lender in case the borrower fails to pay. When government-assisted programs such as FHA (Federal Housing Administration), VA (Veterans Administration), or Rural Development Services are available, the down payment requirements may be substantially smaller.

- Ask about the lender's requirements for LTV, including what you need to do to verify that funds for your down payment are available.
- Ask your lender about special programs that they may offer.

If PMI is required for your loan:

- Ask what the total cost of the insurance will be.
- Ask how much your monthly payment will be when including the PMI premium.
- Ask how long you will be required to carry PMI and how it can be removed later.

Taxes and Insurance

Many lenders will require your monthly loan payment to include an additional amount to cover annual estate taxes and homeowner's insurance. The amount is deposited into an account commonly called a reserve.

Be sure to ask if taxes and insurance payments are required or optional by the lender. Typically, lenders will require monthly real estate taxes and homeowner insurance payments if the LTV is greater than 80%.

When comparing monthly payments from various lenders, be sure to ask if the lender included monthly taxes and insurance costs in the total payment. If it's included, ask for the costs to be broken down in the following manner:

- Principal and interest
- Real estate taxes
- Homeowner's insurance
- Private mortgage insurance

SECTION 2

Creating A Solid Structure

We've talked about how to build a strong foundation. In this section, we will cover the necessary resources that will make your journey pleasant and free of obstacles.

When buying a home or refinancing a loan remember to: shop around, to compare costs and terms, and negotiate for the best deal.

Shop

The newspaper and the Internet are good places to start shopping for a loan. Look for information on interest rates and on points from several lenders or brokers. Since rates and points can change daily, you'll want to check the local business section of the newspaper often when shopping for a home loan.

TIP: The Promotional Advertising may not list the fees associated with the loan, so be sure to ask the lenders about fees.

TIP: Beware of some advertisements that may be formatted to look like a news article, rather than an advertisement.

The Mortgage Shopping Worksheet

Print this worksheet from the home loans CD-Rom or DFI's website and take it with you when you speak to each lender or broker and be sure to write down all the information you obtain. Don't be afraid to make lenders and brokers compete with each other for your business by letting them know that you're shopping around for the best deal.

Loan Pre-Qualification Vs. Loan Pre-Approval

Loan pre-qualification is a best guess at your housing and loan affordability. Pre-qualification is typically based upon a verbal conversation between potential borrowers and a lender and doesn't include formal underwriting or proof of documentation to support the borrower's loan request. A loan pre-qualification is not a commitment to lend, it's only as accurate as the information given, and the lender may change any of the information given.

Loan pre-approval comes after a formal underwriting of a borrower's loan request. Loan pre-approval is achieved with a complete mortgage loan application and typically includes these basic documents:

- Most recent pay stubs (last 2-4 months) and identification of all employment sources.
- Tax Returns: Current year and past year including all schedules and attachments such as W-2's, 1099's and 1098's
- Verification of all assets including banking, investment and retirement statements.
- Names, addresses, account numbers and amounts owed to all creditors.
- Proof of down payment including cash or gifts.
- Letter(s) of explanation on credit issues; on gap in employment history; and bankruptcy
- Contact information on all residences within the past two years to include names and phone numbers of landlord.

TIP: It's important not to make any changes to your financial condition during the loan process, including any major asset purchases, any new debts or changes in your employment. This will affect your approval rating.

Compare

Using the APR (annual percentage rate):

The APR is a number specifically designed to allow you to compare similar loans (e.g. fixed to fixed, ARM to ARM) from the same or different lenders without analyzing fee and rate information. Although the calculation itself is complicated, making the comparison is quite simple.

Take a look at this example:

Assume that you're comparing two, fixed rate 30-year mortgages for $100,000 with different interest rates and different amounts of lender fees:

Loan #1	Loan #2
Interest Rate	
6.00%	6.25%
Prepaid Finance Charges*	
$3,000	$2,500
APR	
6.29%	6.49%

* Prepaid finance charges include a variety of costs to close the loan such as: lender fees, broker fees, interim interest, and escrow fees.

In this example, you only need the APR to determine that Loan #1 is the most cost effective loan offered. When comparing loans and lenders, your mortgage professional should provide you the APR on any loan discussed.

Calculators

Calculators are available online from a number of resources to help you compare and provide you with different scenarios that best fit your needs.

Questions to ask your lender:

When shopping for a loan:

- What is your best interest rate today? What is the total of all fees including the lender fees, third-party fees and transaction fees?
- Is this rate fixed or adjustable? (A fixed interest rate stays the same for the life of the loan, while an adjustable rate changes.)
- Ask if the loan carries a rebate or yield spread premium and whether you will receive the benefits.
- Is there an application deposit? If so, how much is refundable?
- What is the total monthly payment, including taxes, homeowners and mortgage insurance?

When you apply for your loan:

- Do you charge overages?
- If I lock in my interest rate today, what is the best rate available? What are the fees?
- How long is the lock guaranteed?
- What is the annual percentage rate (APR)?
- Is there a balloon payment due on the loan?
- Are there any pre-payment penalties? What are they and for how many years are they in effect?
- Does the interest rate increase if my payments are late?
- What is the total monthly payment, including taxes, homeowners and mortgage insurance?
- Did your lender give you a Good Faith Estimate (GFE) and a copy of the federal booklet on settlement costs? Insist that you get a copy of this document within 3 days of your loan application.

If the loan is an Adjustable Rate Mortgage (ARM), be sure to ask:

- What is the initial rate? How long will that rate stay in effect?
- How often can the rate change?
- What are the rate and payment caps each year, as well as over the life of the loan?
- Can I convert my adjustable rate loan to a fixed rate without doing a new loan?
- Is there a prepayment penalty? If so, how long does it apply?

A Few Things To Remember:

1. When you apply for a mortgage loan, every piece of information that you submit must be accurate and complete. Lying on a mortgage application is fraud and may result in criminal penalties. Don't let anyone persuade you to make a false statement on your loan application, such as overstating your income or the value of the home, the source of your down payment, failing to disclose the nature and amount of your debts, or even how long you've been employed.

2. It's wise to ask to review your documents; request your loan documents one day before closing and have them reviewed by someone you trust or who is skilled in real estate law.

3. Never sign a blank document or a document containing blanks. If someone else inserts information after you've signed, you may still be bound to the terms of the contract. Write "N/A" (not applicable) or cross through any blanks.

4. Read everything carefully and ask questions. Don't sign anything that you don't understand. Never let anyone pressure you into signing before you've read everything completely.

5. Don't let anyone convince you to borrow more money than you know you can afford to repay. If you get behind on your payments, you risk a potential negative impact on your credit score, and losing your house and all of the money you've put into the property.

SECTION 3

WINDOW SHOPPING – BECOMING A SAVVY BORROWER

Every year misinformed consumers become victims of predatory lending or loan fraud. Don't let this happen to you! In this section we will warn you about the common financial pitfalls, how to avoid them and provide you with some alternatives.

Avoiding Financial Pitfalls:

When you buy a house, you enter into a long-term financial obligation. You fill out papers and sign legal documents based on those papers. It's important that you understand your responsibilities so that you won't be a victim, or a participant, in a fraud.

When you apply for a mortgage loan, every piece of information you submit must be accurate and complete. Anything less, is considered loan fraud.

Unfortunately, there are people who may try to convince you to lie about your qualifications so that they can illegally make money at your expense. These people will appear to be your friends, saying that they're trying to help you. They may downplay or deny the importance of complying with the law and suggest that it's all just "red tape" that everyone ignores. Don't allow yourself to be fooled.

BE SMART

- Before you sign anything, read and make sure you understand it.
- Refuse to sign any blank documents.
- Accurately report your income, your employment, your assets, and your debts.
- Don't buy property or borrow money for someone else.
- Disclosure of loan terms is not just a formality. It's the law and you have the right to know.

BE HONEST

- Don't change your income tax returns for any reason.
- Tell the whole truth about money gifts.
- Don't list fake co-borrowers on your loan application.

- Be truthful about your credit problems, past and present.

- Be honest about your intention to occupy the house.

- Don't provide false supporting documentation.

DON'T BE DISCOURAGED

If your loan application is rejected, find out what the problem is and how it can be resolved. Maybe you need to look for a less expensive house, or save more money. Check to see if there are any affordable housing and community programs you might be eligible for to help you through your home buying process.

Predatory Lending

Your best defense against illegal or unethical practices is to be informed.

A predatory loan is a dishonest loan. Predatory lenders offer easy access to money, but often use high-pressure sales tactics, inflated interest rates, outrageous fees, unaffordable repayment terms, and harassing collection tactics. Predatory lenders target those who have limited access to mainstream sources of credit. The elderly, military personnel and homeowners in low-income neighborhoods are often victims of predatory lending. But anyone can be a victim of a predator.

How to Avoid a Predatory Loan:

Finding the best loan is no different than making any other purchase. Be a smart shopper! Talk with a number of different lenders. Compare their offers. Ask questions and don't let anyone pressure you into making a deal that you don't feel comfortable with. If you don't agree with the terms of the offer you always have the right to walk away. Ask questions until you understand the loan terms – even if you feel embarrassed for not knowing the answer.

TIP: In a refinance loan or second mortgage you've additional rights known as Rescission Rights. The lender must allow you three days after the closing of your loan to change your mind. Use that three days wisely and if the loan is not for you . . . cancel it.

Common Predatory Lending Practices:

- **Equity Stripping:** The lender makes a loan based upon the equity in your home, whether or not you can make the payments. If you cannot make payments, you could lose your home through foreclosure.

- **Bait-and-switch schemes:** The lender may promise one type of loan, interest rate, or costs, but switch you to something different at closing. Sometimes a higher (and unaffordable) interest rate doesn't kick in until months after you've begun to pay on your loan. Scrutinize your documents closely and make sure the loan you sign is the loan you agreed to.

- **Loan Flipping:** A lender refinances your loan more than once with a new long-term, high cost loan. Each time the lender "flips" the existing loan, you must pay points and assorted fees.

- **Packing:** You receive a loan that contains charges for services you did not request or need. "Packing" most often involves making the borrower believe that credit insurance or some other costly product must be purchased and financed into the loan in order to qualify. Sometimes the costs of these services may simply be hidden altogether.

- **Hidden Balloon Payments:** You believe that you've applied for a low rate loan requiring low monthly payments only to learn at closing that it's a short-term loan that you will have to refinance within a few years.

- **Hiding or Lying About Pre-Payment Penalties:** You're led to believe that there will be no penalty if you decide to pay your loan off early.

- **Home Improvement Scams:** A contractor talks you into costly or unnecessary repairs, steers you to a high-cost mortgage lender to finance the job, and arranges for the loan proceeds to be sent directly to the contractor. All too often, the contractor performs shoddy or incomplete work, and the homeowner is stuck paying off a long-term loan where the house is at risk.

- **Monthly Payment Scams:** Don't be tricked by deceptive payment comparisons. Be particularly aware when comparing the new monthly payment to your existing monthly payment. Does the new payment contain amounts for taxes and insurance? If not, it may not be a better loan. Ask that the full payment amount be clearly expressed in writing.

- **Piggy Back Second Loans:** Be very aware of additional loans offered or "snuck" into your loan transaction at the time of closing. If you did not ask for a second mortgage, home equity line of credit or credit card secured by your home, one shouldn't be included in your closing papers.

As with any loan opportunity you're considering, contact the Washington State Department of Financial Institutions (DFI) to ensure you're working with a licensed professional.

Foreclosure

If you fall behind in your monthly house payments, the seller or lender may try to take the house back. This is generally called foreclosure. If a house is foreclosed, you may lose not only your house, but also all of the money you've invested. A foreclosure or a deficiency judgment could seriously affect your ability to qualify for credit in the future. Avoid this if at all possible.

Ways That You Can PREVENT Foreclosure:

- Early intervention is the key! If you're having trouble making your monthly mortgage payments, contact your lender immediately. Don't Wait!
- Don't ignore letters from your lender.
- Clearly explain your situation. Write down who you spoke to, the date, and what was said.
- Be prepared to provide your lender with your current financial information, such as your monthly income and expenses.
- You can stop the foreclosure by making up any delinquent payments plus any costs related to the foreclosure.
- Remember to use registered or certified mail in all your correspondence on legal matters.

What Are Your Alternatives?

- Special Forbearance. Your lender may be able to arrange a repayment plan that would be based upon your current financial situation and may even provide for a temporary reduction or suspension of your payments. You may qualify for this if you've recently experienced an involuntary reduction in income or an increase in living expenses.
- Mortgage Modification. You may be able to refinance the debt and extend the term of your mortgage loan. This will help you catch up by possibly reducing the monthly payments to a more affordable level. You may qualify if you've recovered from a financial problem but your net income is less than it was before the default.
- Partial Claim. Your lender may be able to work with you to obtain an interest-free loan from HUD to bring your mortgage current, if you qualify.
- Pre-Foreclosure Sale. This will allow you to sell your property and pay off your mortgage loan to avoid foreclosure and damage to your credit rating. If you're unable to afford the house long-term, you may sell the house yourself before the foreclosure sale and save some of your equity.
- Deed-in-lieu of foreclosure. As a last resort, you may be able to voluntarily "give back" your property to the lender. This won't save your house, but may help your chances of getting another mortgage loan in the future.

TIP: If you're a senior citizen or are disabled and are facing a foreclosure action because of unpaid property taxes or special assessments, you may be eligible to postpone payment of your property taxes or special assessments under two programs in Washington. Contact your local County Assessor's Office or an attorney for more information.

- Lenders don't have to accept all proposals and are not obligated to do so. So don't wait till the last minute to contact your lender.
- If the lender refuses to take partial payments, you should put this money aside to help negotiate with the lender later.
- The foreclosure process will continue despite the possibility of a workout agreement. Therefore, you should not wait to hear back from the lender, you should contact the lender early and try and come up with a solution as soon as possible.

How Do You Know If You Qualify For Any Of These Alternatives?

Contact your local housing counseling agency for help in determining which, if any, of these options may meet your needs. You should also discuss the situation with your lender.

Should You Be Aware Of Anything Else?

Beware of scams! Solutions that sound too simple or too good to be true usually are. If you're selling your home without professional guidance, beware of buyers who try to rush you through the process. Unfortunately, there are people who may try to take advantage of your financial difficulty. Be especially alert to the following:

- Equity skimming. This type of scam involves a "buyer" approaching you and offering to pay off your mortgage or give you a sum of money when the property is sold. The "buyer" may suggest that you move out quickly and deed the property to him or her. The "buyer" then collects rent for a time, doesn't make any mortgage payments, and allows the lender to foreclose. Remember that signing over your deed to someone else doesn't necessarily relieve you of your obligation on your loan.

- Phony Counseling Agencies. Some group's calling themselves "counseling agencies" may approach you and offer to perform certain services for a fee. These could well be services you could do for yourself, for free, such as negotiating a new payment plan with your lender, or pursuing a pre-foreclosure sale. If you've any doubt about paying for such services, call a HUD-approved housing counseling agency. Do this BEFORE you pay anyone or sign anything.

Precautions You Can Take

Here are several precautions that should help you avoid being "taken" by a scam artist:

- Don't sign any papers you don't fully understand.
- Make sure you get all the "promises" in writing.
- Signing over the deed to someone else doesn't necessarily relieve you of your loan obligation. If your name is still included on the documents, you're still liable for repaying the loan.
- Check with your lawyer or your mortgage company before entering into any deal involving your home.
- Check to see if there are any complaints against the prospective buyer if you're selling your house. You can contact Washington State's Attorney General's Office or the Real Estate Commission for this type of information.

Points You Should Remember

- Don't damage your credit rating by losing your home.
- If you get behind on your payments, call or write your mortgage lender immediately.
- Stay in your home to make sure you qualify for assistance.
- Arrange an appointment with a housing counselor to explore your options.
- Cooperate with the counselor or lender trying to help you.
- Explore every alternative to losing your home.
- Beware of scams.
- Don't sign anything you don't understand.
- Remember that signing over the deed to someone else doesn't necessarily relieve you of your loan obligation.
- Act now! Delaying can't help. If you do nothing, you will lose your home, the money that you've put in your home, and your good credit rating.

KNOW YOUR RIGHTS

Before signing any document or paying any money, you should carefully examine your requirements, resources and the need for professional help. In this section we will provide you with a listing of current laws regulating the mortgage industry. It's always recommended that you contact an attorney for any legal advice.

It's the Law; Know your Rights!

If a loan

- Just doesn't seem fair
- Seems inordinately expensive
- Contains unpleasant surprises that you only find out at or after closing, contact the Washington State Department of Financial Institutions. www.dfi.wa.gov

Primary Laws Regulating the Mortgage Industry

Federal Laws:

- **Equal Credit Opportunity Act (ECOA)**
  Prohibits discrimination in lending. ECOA prohibits any creditor from discriminating against an applicant with respect to any aspect of a credit transaction based on sex, race, color, religion, national origin, disability or parental status.
- **Fair Credit Reporting Act (FCRA)**
  Stipulates the requirements of users of credit reports and disclosure to consumers.
- **Fair Housing Act**
  Provides protection against housing-related discriminatory practices based on sex, race, color, religion, national origin, disability or parental status.
- **Good Faith Estimate ("GFE")**
  Designed to make the borrower aware of the amount and range of charges related to the settlement of the transaction. This gives the borrower an idea of the total closing costs associated with the loan and allows the borrower to shop around for a better price.
- **Home Ownership and Equity Protection Act (HOEPA)**
  Requires additional disclosures for certain types of high cost loans.
- **Real Estate Settlement Procedures Act (RESPA)**
  Prohibits cost increasing abusive practices such as kickbacks and referral fees, and requires advance disclosure of settlement service costs.
- **Truth-in-Lending (TILA)**
  Requires disclosure of the cost of credit to the consumer and the terms of repayment.
- **Uniform Settlement Statement ("HUD-1")**
  is provided to the borrower upon the closing of the loan and sets forth the final settlement charges paid both to and by the borrower.

WA State Laws:

- **Mortgage Brokers Practices Act (MBPA)**
  is designed to promote honest and fair dealings and to preserve public confidence in the lending industry by preventing fraudulent practices on consumers.
- **The Consumer Loan Act (CLA)** authorizes higher interest rates so as to ensure credit availability to borrowers with higher than average credit risks that might otherwise be unable to obtain loans.
- **The Consumer Protection Act (CPA)** prohibits unfair and deceptive acts or practices in trade or commerce.
- **Escrow Agent Registration Act (EARA)** requires strict handling of closing documents and the funds necessary for closing your loan.

The Regulators:

- American Association of Residential Mortgage Regulators
- Department of Housing and Development
- Federal Deposit Insurance Corporation
- Federal Housing Finance Board
- Federal Reserve Board
- Federal Trade Commission
- National Credit Union Administration
- National Association of Consumer Credit Administrators
- Office of Federal Housing Enterprise Oversight
- Office of the Comptroller of the Currency
- Office of Thrift Supervision
- Washington State Attorney General
- Washington State Department of Financial Institutions
- Washington State Department of Licensing - Real Estate
- Washington State Housing Finance Commission
- Washington State Office of Insurance Commissioner

Section 5 Final Walkthrough

Understanding disclosures during the home loan process is one area where we find consumer have the most questions. In this section we would like to point out some important aspects of the three main disclosures that you will be receiving during this process.

Take the time to understand what you're committing to before signing the loan papers. Be sure to ask your agent to explain anything that might seem confusing or unclear.

Some of the most important disclosures to pay attention to are:

- Good Faith Estimate (GFE)
- HUD-1 Settlement Statement
- Truth in Lending Statement (TIL)

There are two points in the transaction when you should receive and review your disclosures:

1. At the beginning or origination of your loan transaction and
2. at the end or closing of your loan transaction.

At the beginning of the process, you should expect to receive a Good Faith Estimate. The loan officer or mortgage broker is required to provide you with this disclosure within three business days of the date you apply for your loan.

Good Faith Estimate (GFE)

The Good Faith Estimate or GFE provides you with estimates of the charges you are likely to pay at closing. Remember, the fees listed are only estimates and the actual charges may be more or less, but in general they should be pretty close to what you'll pay at closing. Keep in mind; your transaction may not involve a fee for every item listed in this document.

The GFE is broken out into major costs areas:

Section #800 is for Items payable in connection with your loan; here you will find your loan fees, credit fees, appraisal fees and other costs directly related to obtaining a loan.

800. ITEMS PAYABLE IN CONNECTION WITH LOAN	
801. Loan Origination Fee	%
802. Loan Discount	%
803. Appraisal Fee	to
804. Credit Report	to
805. Lender's Inspection Fee	
806. Mortgage Insurance Application Fee	to
807. Assumption Fee	

Section #1100 is for Title charges. This section will also show the cost of closing the loan or settling.

1100. TITLE CHARGES	
1101. Settlement or closing fee	to
1102. Abstract or title search	to
1103. Title examination	to
1104. Title insurance binder	to
1105. Document preparation	to
1106. Notary fees	to
1107. Attorney's fees	to
1108. Title Insurance	to
1109. Lender's coverage	$
1110. Owner's coverage	$

Section #1200 is for Government Recording and Transfer Charges

1200. GOVERNMENT RECORDING & TRANSFER CHARGES		
1201. Recording fees: Deed $	;Mortgage $	;Releases $
1202. City/county tax/stamps:	Deed $	;Mortgage $
1203. State tax/stamps:	Deed $	;Mortgage $

Section #1300 is for Additional Settlement Charges, such as the cost of a pest inspection.

1300. ADDITIONAL SETTLEMENT CHARGES
1301. Survey to
1302. Pest inspection to

Section #900 is for Items required by your lender to be paid in advance, these are items such as interim interest and insurance premiums.

900. ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE			
901. Interest from	to	@$	/day
902. Mortgage Insurance Premium for			months to
903. Hazard Insurance Premium for			years to

Section #1000 is for Reserves deposited with lender. These are things such as monthly amounts reserved aside for the payment of next year's insurance.

1000. RESERVES DEPOSITED WITH LENDER		
1001. Hazard Insurance	months @ $	per month
1002. Mortgage insurance	months @ $	per month
1003. City property taxes	months @ $	per month
1004. County property taxes	months @ $	per month
1005. Annual assessments	months @ $	per month

Finally you should see the:
- Total of your estimated settlement charges
- Total estimated monthly payments of your loan.

TOTAL ESTIMATED SETTLEMENT CHARGES:	
TOTAL EST. MONTHLY PAYMENT:	
TOTAL ESTIMATED FUNDS TO CLOSE:	

We'll explain how you use the GFE for comparisons in a moment. Before we do that, we'll introduce you to the next disclosure document that you'll receive – the Truth In Lending Disclosure Statement.

Truth in Lending Disclosure Statement (TIL)

The Truth In Lending Disclosure Statement is neither a contract nor a commitment to lend.

Your loan officer or mortgage broker is required to provide you with the Truth in Lending Disclosure Statement within three business days of the date that you apply for your loan.

The purpose of the Truth in Lending Disclosure Statement is to show you the estimated total costs of borrowing, the expected payment amounts over the life of the loan, and other significant features of your loan.

Now let's look at the different sections of the Truth in Lending Disclosure Statement:

The Annual Percentage Rate or APR is the cost of your loan expressed as a yearly rate.

ANNUAL PERCENTAGE RATE

The cost of your credit as a yearly rate

%

The Finance Charge is the dollar amount the loan will cost you.

FINANCE CHARGE

The dollar amount the credit will cost you

$

The Amount Financed is the amount of credit provided to you or on your behalf.

AMOUNT FINANCED

The amount of credit provided to you or on your behalf

$

The Total of Payments is the amount you will have paid after making all payments as scheduled.

TOTAL OF PAYMENTS

The amount you will have paid after making all payments as scheduled

$

The purpose of an APR is to allow you to quickly compare the total costs between competing loans without having to analyze all of the individual costs within each loan.

For example:

A. A $100,000 30-year fix rate loan @ 7% interest rate with finance costs of $5,000 = an APR of 7.52%.

B. While the same loan @ 8% interest rate with finance costs of $4,000 = an APR of 8.44%.

By comparing the APR's (7.52% and 8.44%.) alone, we can see from our example that the first loan (7.52%) initially seems to have a higher cost however, because the interest rate is lower it will provide a lower total cost to you in the long run. Comparing APR's on loans is a quick way to get a feel for which loan is the better deal.

The second major section shows you the monthly payments you will make over the life of the loan.

Truth in lending disclosure statements vary from lender to lender. Toward the bottom, there are several categories of services on your statement. Again, these vary from lender to lender. Be sure to ask about the sections that are checked before you sign.

For example:

Pre-Payment Penalty is a penalty that you may have to pay if you pay the loan off early. Not knowing you have a Pre-Payment Penalty can be a very costly oversight later on.

Balloon payments are a lump sum payment due at a specific point in the loan. A balloon payment may be for the entire balance you owe.

TIP: By Law, the lender must disclose this information to you upfront on this disclosure form.

HUD-1 Settlement Statement

The HUD-1 Settlement Statement summarizes all the costs and adjustments for the buyer and the seller in a home purchase or for just the borrower in a refinance.

Section J is the summary of the borrower's transaction

J. SUMMARY OF BORROWER'S TRANSACTION	
100. GROSS AMOUNT DUE FROM BORROWER:	
101. Contract sales price	
102. Personal property	
103. Settlement charges to borrower(line 1400)	
104.	
105.	
Adjustments for items paid by seller in advance	
106. City/town taxes to	
107. County taxes to	
108. Assessments to	
109.	
110.	
111.	
112.	
120. GROSS AMOUNT DUE FROM BORROWER	

200. AMOUNTS PAID BY OR IN BEHALF OF BORROWER:	
201. Deposit of earnest money	
202. Principal amount of new loan(s)	
203. Existing loan(s) taken subject to	
204.	
205.	
206.	
207.	
208.	
209.	
Adjustments for items unpaid by seller	
210. City/town taxes to	
211. County taxes to	
212. Assessments to	
213.	
214.	
215.	
216.	
217.	
218.	
219.	
220. TOTAL PAID BY/FOR BORROWER	

300. CASH AT SETTLEMENT FROM/TO BORROWER	
301. Gross amount due from borrower(line 120)	
302. Less amounts paid by/for borrower(line 220)	
303. CASH (☐ FROM) (☐ TO) BORROWER	

Section K is the summary of the seller's side of the transaction.)

K. SUMMARY OF SELLER'S TRANSACTION	
400. GROSS AMOUNT DUE TO SELLER:	
401. Contract sales price	
402. Personal property	
403.	
404.	
405.	
Adjustments for items paid by seller in advance	
406. City/town taxes to	
407. County taxes to	
408. Assessments to	
409.	
410.	
411.	
412.	
420. GROSS AMOUNT DUE TO SELLER	

500. REDUCTIONS IN AMOUNT DUE TO SELLER:	
501. Excess deposit (see instructions)	
502. Settlement charges to seller (line 1400)	
503. Existing loan(s) taken subject to	
504. Payoff of first mortgage loan	
505. Payoff of second mortgage loan	
506.	
507.	
508.	
509.	
Adjustments for items unpaid by seller	
510. City/town taxes to	
511. County taxes to	
512. Assessments to	
513.	
514.	
515.	
516.	
517.	
518.	
519.	
520. TOTAL REDUCTION AMOUNT DUE SELLER	

600. CASH AT SETTLEMENT TO/FROM SELLER	
601. Gross amount due to seller (line 420)	
602. Less reductions in amount due seller (line 520)	
603. CASH (☐ TO) (☐ FROM) SELLER	

This form is furnished at closing to give you a statement of actual costs that you'll be expected to pay. Your statement may include the information from the seller's transaction summary, but it's not required. Your settlement agent should take the time to explain each and every item on this form to you.

Earlier in this section we introduced you to the Good Faith Estimate. It's important for you to recognize that the line item numbers of the Good Faith Estimate correspond directly with the line item numbers on the HUD-1 Settlement Statement. The purpose is to allow you to compare what you were told to what you will pay.

The Good Faith Estimate that you received at the beginning of the process is just that – an estimate. The HUD-1 settlement statement, which you'll be receiving at the closing, will show you the actual cost for items paid at settlement.

Be sure to bring the Good Faith Estimate with you to closing to compare the costs on the HUD-1 Settlement Statement. Most consumers don't realize the importance of comparing these two documents.

The GFE and the HUD-1 are part of a discloser package intended to help protect you the consumer from unexpected changes in cost.

Now let's look at an example. Again, note that the line items on the GFE can be compared to the line items on the HUD-1.

Line Item 801 on the GFE references the same item as line 801 on the HUD-1. You should do the same comparison for each item on the two forms.

GFE		HUD-1
Section 800: Items Payable in connection with loan Line Item 801: Loan origination fee $2,000	=	Section 800: Items Payable in connection with loan Line Item 801: Loan origination fee $2,000
Section 900: Items required be lender to be paid in advance Line Item 902 Mortgage Insurance Premium $1,000	=	Line Item 902 Mortgage Insurance Premium $1,000
Section 900: Items required be lender to be paid in advance Line Item 902 Mortgage Insurance Premium $1,000	=	Line Item 902 Mortgage Insurance Premium $1,000
Section 1000 Reserves deposited with lender Line Item 1001: Hazard Insurance Premiums $300	=	Section 1000 Reserves deposited with lender Line Item 1001: Hazard Insurance Premiums $300
Section 1100 Title Charges Line Item 1101: Closing or Escrow Fee $300	=	Line Item 1101: Closing or Escrow Fee $300
Section 1200 Gov. Recording and Transfer charges Line Item 1201 Recording Fees $25	=	Line Item 1201 Recording Fees $25
Section 1300 Additional settlement charges Line Item 1302 Pest inspection $200	=	Line Item 1302 Pest inspection $200
What you'll want to watch for are unexpected and unexplained fees. Take a look at this next example:		
Section 800: Items Payable in connection with loan Line Item 801: Loan origination fee $2,000	X	Section 800: Items Payable in connection with loan Line Item 801: Loan origination fee $2,500

On this Good Faith Estimate the line item 801, the loan origination fee is $2,000. However the HUD-1 Settlement Statement lists $2,500 – a difference of $500! You have the right to know why your being asked to pay $500 more than what you were initially quoted. Insist on an explanation as to the difference. You are never required to accept a loan that is different from what you expected. There should be no surprises at this late date. If the fees are substantially different, don't sign any documents unless you agree with the new terms.

Remember, the decisions you make at this point may be with you for the life of the loan. Even at this late date you can negotiate terms or seek advice from your realtor, an attorney or your local housing authority in making a final decision. The bottom line is the final decision lies with you.

Here are several things to consider before your signing day.

Before Signing Day:

- Contact the Escrow Agent and request copies of your completed documents at least one day before your appointment to sign your loan.

- Visit a local housing counselor, an attorney or a trusted family member or friend to review all documents. Make sure that you understand all the terms of the loan.

- Check your Promissory Note:
  - Is the interest rate correct?
  - Is the payment what you expected and will it include taxes and insurance?
  - What is the term of the loan? 30 years? 20 years? 15 years?
  - Is there a prepayment penalty? Is there a balloon payment? If you are unsure of the impact of these features, contact a non-profit housing agency or a lawyer.
  - If your loan is an Adjustable Rate Mortgage, you should receive an ARM Disclosure or Rider. Review this document. Make sure you understand how often your rate can increase, how much your payment can increase, when the rate will go up, and what the maximum interest rate and the maximum monthly payments will be.
- If a broker is involved, is he charging anything other than a broker fee? For example, is he also charging a processing fee, an underwriting fee, or some other kind of fee of which you were unaware?
- Is there a Yield Spread Premium? Be sure to ask your escrow agent even if you don't see one. YSP's sometimes are hard to spot on the HUD-1.

Yield Spread Premiums are fees that lenders pay to mortgage brokers when they sell you a higher interest rate. If you see a YSP on your HUD-1 settlement statement, you may not be receiving the lowest interest rate that was available to you or you may be paying the broker more than you agreed. Don't be fooled you ultimately are paying for that YSP.

TIP: Be sure to request a copy of:
- Your credit report and
- Your property appraisal from your broker;

All these documents plus others you received at closing make up your personal loan file.

Keep these together with all other items relating to your home in a safe place.

Before you leave the closing, be sure you receive copies of:
- Your Note
- The Deed of Trust
- Estimated HUD-1 Settlement Statement
- The Truth in Lending Disclosure Statement
- The Servicing Disclosure and
- Any Insurance Disclosures.

If you're refinancing or getting an equity line of credit, you have three days to change your mind after you sign the loan documents. If you decide you don't want the loan within this 3-day "rescission" period, you can simply walk away with a written notification. Provide a signed copy of the "Notice to Cancel" to your lender. You can find this document among your closing papers. If you do rescind the loan the lender must give you back any money you paid out in the transaction, even money you paid to other parties.

Within one-week of signing your loan documents, you should receive a final HUD-1 settlement statement in the mail. If you don't receive this information, contact your escrow agent immediately. This document is your official accounting of all money paid. Look this final statement over closely and make sure nothing has changed.

Closing Costs:

Closing costs are all the different charges that you'll be required to pay at or before the closing, they include charges related to the purchase of your home, and charges related to getting a mortgage. Depending on the specific circumstances of your particular loan, closing costs typically run between three and five percent of the loan amount.

Charges by the lender include:
- Application fees
- Points and origination fees and
- Charges for appraisals and credit reports

Charges collected by the title company or settlement agent include:
- Title insurance fees
- Real estate tax on the mortgage
- Homeowner's insurance reserves
- Charges for filing documents with the county clerk
- And a settlement fee for handling all the paperwork to close your loan. In a purchase, some of these costs may be shared with the seller.

There may be other charges for services provided by either your lender or the closing company. Your lawyer and the contact person with your lender can give you more specific information on these costs. Remember, when you budget for your purchase, you should be including prepaid and closing costs, in addition to the purchase price, so that you can be sure that you can afford the house.

TIP: To decrease the amount of money you'll need to pay at closing, ask to schedule the closing at the end of the month.

For example: If you close on January 31st, your first payment will still be March 1st, but you'll only need to pay the interest for that one day at the time of closing. Your first payment will only be a month and a day away, instead of almost two months away, but you'll need less money at the closing.

SECTION 6

WELCOME HOME

Congratulations on the purchase of your new home! Now it's time to welcome your family and prepare for the house warming party.

YOUR HOME IS YOUR INVESTMENT – PROTECT IT!

1. Limit your use of consumer credit cards. Avoid high cost purchases. Live within your means.
2. Stay away from rent-to-own businesses and payday lenders. The fees are crippling and the terms put you at a huge disadvantage. Consider all other options first.
3. If you fall into debt, talk to a mortgage counselor before you apply for a loan. Avoid adding credit card debt to your mortgage.
4. Think twice about including a car payment in a mortgage refinance. Do you want to make payments on your car over 30 years?
5. Considering life insurance? Talk to a financial planner. Mortgage Life Insurance products pay your lender but your loved ones don't receive a penny.
6. Thinking about refinancing? Don't just look at your loan payments – look at the life of your loan. For example, refinancing with another 30-year mortgage may lower your monthly payment but it also means another 30 years of payments. Perhaps a 15-year loan would best meet your needs.
7. Now that you've become a homeowner, you will be bombarded with credit offers. Choose your credit accounts wisely. Always read the fine print. There is no free money – just clever advertising. Consider a credit card that is tied to your checking account. That way you can't spend money you don't have.
8. Homeowner's insurance can cover more than home replacement. Consult an insurance specialist about coverage for your home's contents, replacement costs, and liability insurance.

SECTION 7

SECURING A LINE OF CREDIT AFTER PURCHASE?

Here is a heads up on what can be done after the purchase of your home relative to financing, re-financing, or obtaining an equity line of credit. It's important for you to understand that your home investment can bear you fruits for a future expansion, remodeling, a consolidation loan or long awaited vacation. Lets see how it works:

Is a home equity credit line for you?

If you need to borrow money, home equity lines may be one useful source of credit. Initially, they may provide you with large amounts of cash at relatively low interest rates. And they may provide you with certain tax advantages unavailable with other kinds of loans.

At the same time, home equity lines of credit require you to use your home as collateral for the loan. This may put your home at risk if you're late or cannot make your monthly payments. Those loans with a large final payment may lead you to borrow more money to pay off this debt, or they may put your home in jeopardy if you can't qualify for refinancing. And, if you sell your home, most plans require you to pay off your credit line at that time. In addition, because home equity loans give you relatively easy access to cash, you might find you borrow money too freely.

- **How much money can you borrow on a home equity credit line?**
  Depending on your creditworthiness and the amount of your outstanding debt, home equity lenders may let you borrow up to 85% of the appraised value of your home minus the amount you still owe on your first mortgage. Ask the lender about the length of the home equity loan, whether there is a minimum withdrawal requirement when you open your account, and whether there are minimum or maximum withdrawal requirements after your account is opened. Inquire how you can gain access to your credit line -- with checks, credit cards, or both.

Also, find out if your home equity plan sets a fixed time -- a draw period -- when you can make withdrawals from your account. Once the draw period expires, you may be able to renew your credit line. If you can't, you won't be permitted to borrow additional funds. Also, in some plans, you may have to pay your full outstanding balance. In others, you may be able to repay the balance over a fixed time.

- **What safeguards are built into the loan?** One of the best protections you've is the Federal Truth in Lending Act, which requires lenders to inform you about the terms and costs of the plan at the time you're given an application. Lenders must disclose the APR and payment terms and must inform you of charges to open or use the account, such as an appraisal, a credit report, or attorneys' fees. Lenders also must tell you about any variable-rate feature and give you a brochure describing the general features of home equity plans.

The Truth in Lending Act also protects you from changes in the terms of the account before the plan is opened. If you decide not to enter into the plan because of a change in terms, all fees you paid earlier must be returned to you.

Because your home is at risk when you open a home equity credit account, you've three days after you receive the closing papers to cancel the transaction, for any reason. To cancel, you must inform the lender in writing. Upon timely cancellation, your credit line must be cancelled and all fees you've paid must be returned.

Questions to ask before you sign the dotted line:

- What is the interest rate on the home equity loan?
- What are the upfront closing costs?
- What are the continuing costs?
- What are the repayment terms during the loan?
- What are the repayment terms at the end of the loan?

Common Predatory Lending Practices:

- Equity Stripping: The lender makes a loan based upon the equity in your home, whether or not you can make the payments. If you can't make payments, you could lose your home through foreclosure.

- Bait-and-switch schemes: The lender may promise one type of loan, interest rate, or costs, but switch you to something different at closing. Sometimes a higher (and unaffordable) interest rate doesn't kick in until months after you've begun to pay on your loan. Scrutinize your documents closely and make sure the loan you sign is the loan you agreed to.

- Loan Flipping: A lender refinances your loan more than once with a new long-term, high cost loan. Each time the lender "flips" the existing loan, you must pay points and assorted fees.

- Packing: You receive a loan that contains charges for services you did not request or need. "Packing" most often involves making the borrower believe that credit insurance or some other costly product must be purchased and financed into the loan in order to qualify. Sometimes the costs of these services may simply be hidden altogether.

- Hidden Balloon Payments: You believe that you've applied for a low rate loan requiring low monthly payments only to learn at closing that it's a short-term loan that you will have to refinance within a few years.

- Hiding or Lying About Pre-Payment Penalties: You're led to believe that there will be no penalty if you decide to pay your loan off early.

- Home Improvement Scams: A contractor talks you into costly or unnecessary repairs, steers you to a high-cost mortgage lender to finance the job, and arranges for the loan proceeds to be sent directly to the contractor. All too often, the contractor performs shoddy or incomplete work, and the homeowner is stuck paying off a long-term loan where the house is at risk.

- Monthly Payment Scams: Don't be tricked by deceptive payment comparisons. Be particularly aware when comparing the new monthly payment to your existing monthly payment. Does the new payment contain amounts for taxes and insurance? If not, it may not be a better loan. Ask that the full payment amount be clearly expressed in writing.

- Piggy Back Second Loans: Be very aware of additional loans offered or "snuck" into your loan transaction at the time of closing. If you did not ask for a second mortgage, home equity line of credit or credit card secured by your home, one should not be included in your closing papers.

Home Improvement Loan

Understanding Your Payment Options

You've several payment options for most home improvement and maintenance and repair projects. For example, you can get your own loan or ask the contractor to arrange financing for larger projects. For smaller projects, you may want to pay by check or credit card. Avoid paying cash. Whatever option you choose, be sure you've a reasonable payment schedule and a fair interest rate. Here are some additional tips:

- Try to limit your down payment. Some state laws limit the amount of money a contractor can request as a down payment.

- Try to make payments during the project contingent upon satisfactory completion of a defined amount of work. This way, if the work is not proceeding according to schedule, the payment is also delayed.

- Lien laws may allow subcontractors or suppliers to file a mechanic's lien against your home to satisfy their unpaid bills. Don't make the final payment or sign an affidavit of final release until you're satisfied with the work and know that the subcontractors and suppliers have been paid.

- Some state or local laws limit the amount by which the final bill can exceed the estimate, unless you've approved the increase.

  - If you've a problem with merchandise or services that you charged to a credit card, and you've made a good faith effort to work out the problem with the seller, you've the right to withhold payment for the merchandise or services. Contact your card issuer for details on how this service is administered. You may be able to withhold payment up to the amount of credit outstanding for the purchase, plus any finance or related charges.

The "Home Improvement" Loan Scam

A contractor calls or knocks on your door and offers to install a new roof or remodel your kitchen at a price that sounds reasonable. You tell him you're interested, but can't afford it. He tells you it's no problem — he can arrange financing through a lender he knows. You agree to the project, and the contractor begins work. At some point after the contractor begins, you're asked to sign a lot of papers. The papers may be blank or the lender may rush you to sign before you've time to read what you've been given to sign. You sign the papers. Later, you realize that the papers you signed are a home equity loan. The interest rate, points and fees seem very high. To make matters worse, the work on your home isn't done right or hasn't been completed, and the contractor, who may have been paid by the lender, has little interest in completing the work to your satisfaction.

You can protect yourself from inappropriate lending practices. Here's how.

Don't:

- Agree to a home equity loan if you don't have enough money to make the monthly payments.
- Sign any document you'ven't read or any document that has blank spaces to be filled in after you sign.
- Deed your property to anyone. First consult an attorney, a knowledgeable family member, or someone else that you trust.
- Agree to finance through your contractor without shopping around and comparing loan terms.

Getting a Written Contract

A contract spells out the "who, what, where, when" and cost of your project. The agreement should be clear, concise and complete.

Before you sign a contract, make sure it contains:

- The contractor's name, address, phone, and license number, if required.

- The payment schedule for the contractor, subcontractors and suppliers.

- An estimated start and completion date.

- The contractor's obligation to obtain all necessary permits.

- How change orders will be handled. A change order — common on most remodeling jobs — is a written authorization to the contractor to make a change or addition to the work described in the original contract. It could affect the project's cost and schedule. A remodel often requires payment for change orders before work begins.

- A detailed list of all materials including color, model, size, brand name, and product.

- Warranties covering materials and workmanship. The names and addresses of the parties honoring the warranties — contractor, distributor or manufacturer — must be identified. The length of the warranty period and any limitations also should be spelled out.

- What the contractor will and will not do. For example, is site clean up and trash hauling included in the price? Ask for a "broom clause." It makes the contractor responsible for all clean-up work, including spills and stains.

- Oral promises also should be added to the written contract.

- A written statement of your right to cancel the contract within three business days if you signed it in your home or at a location other than the seller's permanent place of business. During the sales transaction, the salesperson (contractor) must give you two copies of a cancellation form (one to keep and one to send back to the company) and a copy of your contract or receipt. The contract or receipt must be dated, show the name and address of the seller, and explain your right to cancel.

Keeping Records

Keep all paperwork related to your project in one place. This includes copies of the contract, change orders and correspondence with your home improvement professionals. Keep a log or journal of all phone calls, conversations and activities. You also might want to take photographs as the job progresses. These records are especially important if you've problems with your project — during or after construction.

Completing the Job: A Checklist

Before you sign off and make the final payment, use this checklist to make sure the job is complete. Check that:

- ☐ All work meets the standards spelled out in the contract.
- ☐ You've written warranties for materials and workmanship.
- ☐ You've proof that all subcontractors and suppliers have been paid.
- ☐ The job site has been cleaned up and cleared of excess materials, tools and equipment.
- ☐ You've inspected and approved the completed work.

Reverse Mortgages

If you're age 62 or older and are "house-rich, cash-poor", a reverse mortgage may be an option to help increase your income. However, because your home is such a valuable asset, you may want to consult with your family, attorney, or financial advisor before applying for a reverse mortgage. Knowing your rights and responsibilities as a borrower may help to minimize your financial risks and avoid any threat of foreclosure or loss on your home.

How Reverse Mortgages Work

A reverse mortgage is a loan where a lender pays you a monthly advance, a line of credit, or a combination of all three while you continue to live in your home. The amount you're eligible to borrow generally is based on your age, the equity in your home, and the interest rate the lender is charging. Funds you receive from a reverse mortgage may be used for any purpose.

With a reverse mortgage, you retain title to your home. You're responsible for maintaining your home and paying all real estate taxes. Depending on the plan you select, your reverse mortgage becomes due with interest when you move, sell your home, reach the end of a pre-selected loan period, or die. When you die, the lender doesn't take title to your home, but your heirs must pay off the loan. Usually, selling the home or refinancing the property repays the debt.

Facts to Consider about Reverse Mortgages

- Reverse mortgages are rising-debt loans. The interest is added to the principal loan balance each month, because it's not paid on a current basis. The amount you owe increases over time as the interest compounds. Some reverse mortgages have fixed-rate interest; others have adjustable rates that can change over the lifetime of the loan.
- Reverse mortgages use some or all of the equity in your home, leaving fewer assets for you and your heirs.
- The three types of reverse mortgages—FHA-insured, lender-insured, and uninsured—vary according to their costs and terms. Check the features of each to select the type that is best suited for your needs. Before considering a reverse mortgage, consult with family members, your attorney, or financial advisor.
- Reverse mortgages typically charge loan-origination fees and closing costs. Insured plans charge insurance premiums and some plans have mortgage servicing fees. You may be able to finance these costs if you want to avoid paying them in cash. But, if you finance the costs, they will be added to your loan amount and you will pay interest on them.
- Your legal obligation to repay the loan is limited by the value of your home at the time the loan is repaid. This would include any appreciation in the value after your loan began.

There are various reverse mortgage plans offered. Consult your attorney or financial advisor about the tax consequences of the particular plan you're considering.

Reverse Mortgage Safeguards

The federal Truth in Lending Act (TILA) is one of the best protections you've with a reverse mortgage. TILA requires lenders to disclose the costs and terms of reverse mortgages. This includes the Annual Percentage Rate (APR) and payment terms. If you choose a credit line as your loan advance, lenders also must tell you of charges related to opening and using your credit account.

RESOURCES

The following agencies served as resources for this project:

AARP
www.aarp.org

Fannie Mae
www.fanniemae.com

Federal Citizen Information Center
www.pueblo.gsa.gov

Federal Deposit Insurance Corporation
www.fdic.gov

Federal Reserve Board
www.federalreserve.gov

Federal Trade Commission
www.ftc.gov

Freddie Mac
www.freddiemac.com

Ginne Mae
www.ginniemae.gov

Seattle/King County Coalition for Responsible Lending
seattle.gov/housing/predatorylending/Default.htm

U.S. Department of Urban and Housing Development (HUD)
www.hud.gov

Washington State Housing Finance Commission
www.wshfc.org

Washington State Office of the Attorney General
www.atg.wa.gov

Disclaimer: This information is intended to provide you with general information about buying and refinancing your home. It touches on the basic steps in the process and suggests guidelines for avoiding pitfalls, but it does not attempt to provide financial or legal advice. If you lack knowledge or experience in negotiating terms, arranging financing, analyzing tax consequences, or handling related details, you should contact an attorney, or request assistance from your local housing authority before buying or refinancing a home. It is designed to be an educational tool. It does not endorse or recommend any person, product, or institution.